National Credit Union Administration
Strategic Plan

1997 - 2002

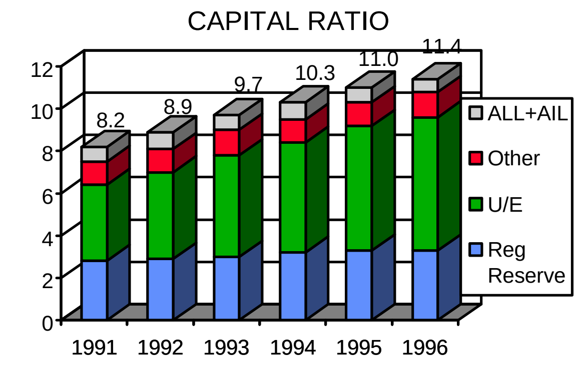
EXECUTIVE SUMMARY

The National Credit Union Administration (NCUA) is an independent federal agency established by Congress on March 10, 1970, (Public Law 91-206) to oversee the federal credit union system. A board of three members appointed by the President and confirmed by the Senate for staggered six-year terms provide agency oversight.

NCUA has multiple interested parties, including credit unions and their members, the U.S. Congress, trade organizations, state credit union leagues, state supervisory authorities and interagency departmental staff. As set forth in the Federal Credit Union Act, the NCUA oversees the health, safety, and soundness of the federally insured credit union system.

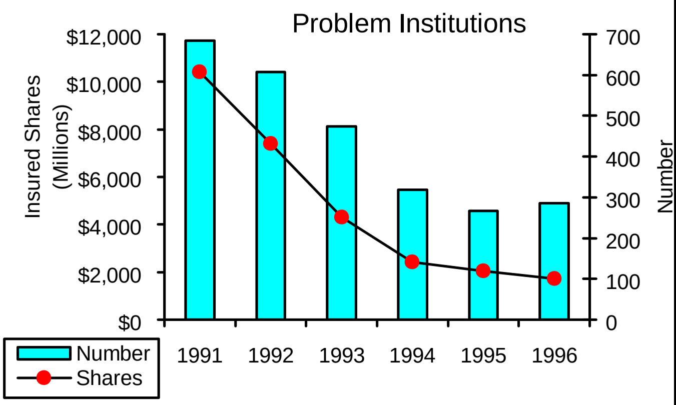
In addition to chartering and regulating federal credit unions, NCUA insures member accounts in approximately 7,200 federal credit unions and 4,200 state-chartered credit unions. Thus, the NCUA Board is also responsible for the management and oversight of the National Credit Union Share Insurance Fund (NCUSIF or the Fund), which was created on October 19, 1970. The Fund currently insures approximately $275 billion in member share deposits.

Chart 1



The health of the credit union system is strong and steadily improving. A key barometer of this strength is the industry's increasing capital ratio, as identified by Chart 1. Moreover, 1996 was another successful year for credit unions, with only 19 credit union failures, compared to 22 in 1995 and 33 in 1994. In addition, Chart 2 illustrates the decline in the amount of shares at risk and the number of problem credit unions, as the agency effectively resolves problems. December 31, 1996, the NCUSIF's 26th anniversary, closed the most successful year in its history. Approximately 11,400 federally insured credit unions received dividend checks totaling $102.7 million, or four percent of their one percent capitalization deposit in the NCUSIF. The dividend pay-out reduced the NCUSIF's equity ratio to the Congressional-mandated maximum of 1.30 percent.

Chart 2



MISSION STATEMENT

The NCUA's mission is to monitor and promote safe and sound credit unions, to responsibly administer the share insurance fund, and to encourage service to people of small means, while providing a flexible regulatory environment and carefully managing the agency's resources.

STRATEGIC GOALS

NCUA advocates six strategic goals that will enable us to realize our mission.

1. <u>Federal Credit Union Program</u>. Promote a system of financially sound, well managed federally chartered credit unions.

Title I of the Federal Credit Union Act establishes a system of democratically controlled, cooperatively owned financial institutions called credit unions. NCUA will conduct a flexible and thorough examination and supervision program in order to oversee the safety and soundness of the credit union system. The agency will deliver a comprehensive report to credit union officials and management at the conclusion of examinations that acknowledges positive attributes and identifies areas of concern. NCUA will recommend timely corrective action for identified problems to ensure minimal risk to the members and NCUSIF.

2. <u>Federal Share Insurance Program</u>. Protect member savings in federally insured credit unions, thus preserving federal taxpayer funds.

Title II of the Federal Credit Union Act requires NCUA to provide share insurance to all federally chartered credit unions and permits offering federal insurance to state chartered credit unions. The NCUSIF is the arm of the agency that insures member accounts up to $100,000. NCUA will protect the safety and soundness of credit unions and the NCUSIF primarily through risk-based examinations and on-going supervision. In addition, the agency must have numerous safeguards (i.e., risk management thresholds, trend analysis, etc.) that support and provide quality control over the examination and supervision function. Finally, the NCUA Board will promulgate, review and revise rules, regulations, and interpretative rulings to ensure relevancy and flexibility in a dynamic environment.

3. Liquidity Management Program. Improve the general financial stability of credit unions by meeting their liquidity needs through the Central Liquidity Facility (CLF) and a financially sound, well-managed corporate credit union system.

Title III of the Federal Credit Union Act establishes the CLF as the centralized liquidity source for the nation's credit unions. Congress determined that a National Credit Union Central Liquidity Facility was "...needed to improve general financial stability by meeting the liquidity needs of credit unions and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy." The NCUA Board will manage the CLF to meet this directive. The corporate credit union system has evolved as an additional means to handle credit union's liquidity needs, and it is now the primary provider of credit union liquidity. NCUA will conduct a thorough examination and supervision program in order to oversee the safety and soundness of the corporate credit union system.

4. Community Development Program. Promote the availability of credit union financial services to people of small means.

The introduction to the Federal Credit Union Act includes the directive **to make more available to people of small means credit for provident purposes through a national system of cooperative credit**..." The mandate is clear, and the Office of Community Development Credit Unions, supported by Economic Development Specialists in the field, is tasked with the requirement to achieve this public policy objective. In conjunction, the Community Development Revolving Loan Program (CDRLP) consists of Congressional-appropriated funds and will be available to qualifying credit unions serving predominantly low-income members and those financially underserved. It will serve as a source for borrowing low-cost funds and grant money for technical assistance.

5. Consumer Compliance Program. Ensure compliance with consumer regulations.

NCUA must protect members' rights under consumer protection laws promulgated by Congress. The agency will handle member complaints and assure appropriate disclosure and compliance with other requirements through the examination process. NCUA will assure appropriate corrective action to address violations and report to Congress as required by the relevant laws.

6. <u>Resource Management Program</u>. Responsibly manage the agency's human, financial, and technical resources.

In order to implement the above programs and initiatives, NCUA must be focused and organizationally efficient, while maintaining highly trained, technologically equipped, and motivated personnel. Proper oversight will require sensible management of the agency's finances, technology, and personnel. As changes in the credit union system continue to occur, performance based standards will be updated accordingly.

ACHIEVEMENT OF GOALS AND OBJECTIVES

In order to meet the agency's strategic goals and objectives, the Board needs to responsibly manage all resources. In fact, this commitment surfaces as a strategic goal. The following narrative outlines the resources that are critical to achievement of NCUA's goals and objectives.

Revenue

NCUA receives no appropriated funds for operational purposes. Federal credit unions pay NCUA an operating fee based on the asset size of the credit union. The fee covers the costs of administering and serving the federal credit union system.

Federally insured credit unions fund the NCUSIF in its entirety. In 1985, all federally insured credit unions capitalized the NCUSIF by contributing one percent of their insured shares to the Fund. The capitalization of the NCUSIF has been a huge success to NCUA and credit unions. Since 1985, only one insurance premium has been assessed. In all other years, the Fund has been able to generate sufficient income to cover all insurance losses, pay 50 percent of the agency's operating costs, and maintain the yearend equity level between 1.25 and 1.30 percent.

The NCUSIF paid dividends of $102.7 million in 1996, and $103.9 million in 1995. The fund's equity growth resulted from a modest growth in insured shares, minimal insurance losses, and controlled operating costs.

The NCUA Board will continue to maintain fiscal responsibility by prudently managing the agency's resources. The NCUA Board has been able to reduce operating fees and pay insurance dividends as a result of: effective annual examination and supervision programs; credit unions reducing the amount of risk they take; and the positive effects of the current economy. As a part of the cost savings, the NCUA Board eliminated all future operating fee assessments on federal credit unions under $500,000 in assets and reduced the operating fee to $100 for credit unions between $500,000 and $750,000. However, operating fees may not always decrease. A dramatic change in the economy might increase the number of problems in credit unions causing a need to increase support for the examination and supervision program. If this is the case, the Board can raise the operating fee or assess an insurance premium.

Expenses

The cost of running the agency in 1997 is projected at $99.86 million. NCUA is a small organization with a geographically dispersed staff of 950 that includes a central office, six regional offices, an Office of Corporate Credit Unions, and an Asset Management Assistance Center. Seventy percent of the budget is earmarked for salaries and benefits. Approximately 81 percent of the staff is directly associated with the field program. Because field staff maintain home offices and work in credit unions, NCUA saves the facilities and utility costs for approximately 600 employees. However, these logistics require extensive travel that does have an impact on expenses and the quality of life for the examiners. Furthermore, the ever-evolving financial markets require ongoing training to hone the skills of the examiner staff.

Oversight of credit unions is increasingly complex, making critical the recruitment, motivation, training, and retention of highly skilled staff to deal with changing issues. Because motivation and retention of skilled staff are both essential, the agency is addressing quality of life issues aimed at minimizing weekend travel and allowing additional administrative time.

NCUA invests in technology and is a leader in the financial regulatory industry. NCUA provides all field examiners, including state examiners, with portable computers and printers to conduct credit union examinations. On-going training is necessary to allow staff to utilize this technology to its fullest. In 1996, new initiatives include purchasing an integrated accounting, human resource, and administration system. Effective implementation will enhance the efficacy of the agency. These expenses are crucial to the successful implementation of the agency's strategic plan.

During the last two years, NCUA updated the electronic-based credit union examination system to the current Automated Integrated Regulatory Examination System (AIRES). AIRES was designed to improve the examination process and overall quality of examinations through efficient access to financial data, use of state-of-the-art equipment, and enhanced analytical tools.

EXTERNAL FACTORS

Economy

Credit unions have experienced excellent financial performance in the stable economic environment that has existed over the past few years. However, a dramatic change in the economy such as sustained increases in unemployment, industry slowdowns, or a sustained rise in interest rates will impact the financial markets, including credit unions. As an example, in the 1980's, due to an economic downturn, various regions of the United States (Alaska, Texas, Louisiana, and the Northeast) felt the impact. In the Northeast, an overabundance of spec building and layoffs in the technology fields caused property values to decrease and left financial institutions absorbing the losses. The same was true for other areas of the country when oil prices declined and the oil industry sector consolidated.

As was demonstrated in the 1980's, the credit union system and the NCUSIF are resilient and can withstand such changes over the long haul. Although NCUA's examination and supervision programs are tailored to focus on emerging issues and to resolve problems, a dramatic change in the economy could negatively impact components of the annual performance plan.

Technology

New advances in technology will cause dramatic changes in how credit unions interact and deliver services to their members. In order to succeed in the electronic financial services arena, an organization does not need to be a traditional financial institution. This fact alone will cause credit unions to seek innovative solutions and keep abreast with developing technology to guide them in their future growth strategies and remain viable.

Regardless of the level of sophistication, risks are inherent in all technological advances. The use of technology to deliver products and services introduces unique risks due to the increased speed at which systems operate and the broad access in terms of geography, user groups, applications, databases, and peripheral systems. In addition to the unique risks, traditional risks that are similar to those in customary credit union activities are also present.

Traditional risk management programs will need to change to address new aspects of an electronic environment that include transaction speed and user anonymity. These aspects could limit or distort the quality of information that management relies on to make effective decisions. The process of risk management needs to identify, measure, monitor, and manage potential risk exposure. With respect to electronic financial services, the process should include all significant economic, legal, regulatory, and technological risk areas.

Legal Challenge to NCUA’s Interpretation of Common Bond

Credit unions and NCUA face a significant challenge arising from lawsuits brought by other financial institutions and their trade associations. The most prominent of these cases is the First National Bank & Trust Company v. NCUA. In this case the U.S. Court of Appeals for the D.C. Circuit held that NCUA misinterpreted the common bond provision of the Federal Credit Union Act (FCUA) by allowing members of unrelated groups to join the same credit union, provided that each constituent group had its own common bond.

Today, as a result of a partial stay granted in this case, credit unions may continue to add new members to select employee groups outside their core common bond. However, they may not offer credit union services to new select employee groups as they could before the suit. This action effectively denies many small employers, rural and economically disadvantaged groups access to affordable financial services.

The Supreme Court will hear the AT&T Family FCU case. A loss in the Supreme Court might raise the specter of divestiture of small employee groups (SEGs). Divestiture of these groups would pose severe and immediate safety and soundness problems for the credit union movement and NCUSIF.

Credit Union Taxation

In 1937, three years after their creation, federal credit unions were exempted from taxation by Congress because they were “cooperative organizations operated entirely by and for their members.” Over the years a number of efforts have been made to tax credit unions and each failed when the reason for the original exemption was found to still be valid.

Credit unions remain nonprofit financial cooperatives run by and for their members with the same goal as stated in the Federal Credit Union Act of 1934 -- “...to make more available to people of small means credit for provident purposes through a national system of cooperative credit...” From a safety and soundness perspective, taxation could act as a disincentive to build capital and an incentive to take unnecessary risk.

PROGRAM EVALUATIONS

1. <u>Federal Credit Union Program</u>. Promote a system of financially sound, well-managed federally chartered credit unions.

Objective: Maintain or enhance the financial well-being and operational strengths of federal credit unions.

> **Measure:** The ratio of federal credit unions examined to operating federal credit unions.
> **Measure:** The ratio of federal credit union examinations appraised as "meets standards" or better to the number of federal examinations appraised.
> **Measure:** The ratio of quality assurance reviews completed to the number of federal credit union examinations completed.

Objective: Provide a prompt and effective oral and a written report of examination findings and recommendations to credit union officials and management.

> **Measure:** The ratio of federal credit union examinations less than $20 million in assets completed within 45 calendar days of the start of on-site activity to the number of federal credit union examinations less than $20 million in assets completed.
> **Measure:** The ratio of federal credit union examinations completed within 75 calendar days of the start of on-site activity to the number of federal credit union examinations completed.
> **Measure:** The average overall response rating to the questions on the NCUA Examination Survey, which is based on a scale of 5 (Definitely Agree) to 1 (Definitely Disagree).

Objective: Reduce regulatory burden on the credit union system.

> **Measure:** The number of hours per annum spent on regulatory compliance per the Paperwork Reduction Act.

Objective: Streamline the processing of charters and fields of membership to allow access to federal credit union services.

> **Measure:** The number of federal credit union members served.
> **Measure:** The number of new federal charters issued.

2. <u>Federal Share Insurance Program</u>. Protect member savings in federally insured credit unions, thus preserving federal taxpayer funds.

Objective: Maintain a strong, viable National Credit Union Share Insurance Fund (NCUSIF).

> **Measure:** The ratio of NCUSIF equity to the aggregate of insured shares.
> **Measure:** The ratio of NCUSIF insurance losses per $1,000 of insured shares.
> **Measure:** The ratio of available assets to the aggregate of insured shares.

Objective: Resolve in a timely manner major areas of concern in federally insured credit unions assigned a composite CAMEL code 4 or 5.

> **Measure:** The ratio of federally insured credit unions that are coded 4 or 5 to the aggregate numbers of all federally insured credit unions.
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> **Measure:** The ratio of shares of federally insured credit unions that are coded 4 or 5 to the aggregate of shares in all federally insured credit unions.
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> **Measure:** The ratio of federally insured credit unions that are currently CAMEL coded 4 or 5 equal to or less than 24 months to the total number of federally insured credit unions coded 4 or 5.

Objective: Maintain or enhance the risk rating (CAMEL code) of federally insured credit unions periodically utilizing a uniform-computerized, risked-based analysis examination system.

> **Measure:** The ratio of federally insured credit unions that have been evaluated in the last 18 months as a result of a federal or state examination to the number of operating federally insured credit unions.
>
> **Measure:** The ratio of state and federal examinations completed using the Automated Integrated Regulatory Examination System (AIRES) to the total number of federally insured credit union examinations completed.

3. <u>Liquidity Management Program</u>. Improve the general financial stability of the credit unions by meeting their liquidity needs through the CLF and a financially sound, well-managed corporate credit union system.

Objective: Provide for a responsive source of liquidity to credit unions to meet unusual and unexpected demands for funds.

> **Measure:** The ratio of federally insured credit union membership with access to the Central Liquidity Fund (CLF) to total federally insured credit unions.

Objective: Enhance the financial well-being and operational strengths of the corporate credit unions.

> **Measure:** The ratio of corporate credit unions examined to operating corporate credit unions.
>
> **Measure:** The ratio of corporate credit union examinations appraised as “meets standards” or better to the number of corporate credit unions appraised.
>
> **Measure:** The ratio of reserves and undivided earnings to total assets in the corporate credit union system.

Objective: Resolve major areas of concern in corporate credit unions assigned a CAMEL code 4 or 5.

> **Measure:** The ratio of shares of corporate credit unions that are coded 4 or 5 to the aggregate of shares in all corporate credit unions.

Measure: The ratio of corporate credit unions that are currently CAMEL coded 4 or 5 equal to or less than 24 months to the total number of corporate credit unions coded 4 or 5.

4. Community Development Program. Promote the availability of credit union financial services to people of small means.

Objective: Identify, serve, and retain credit union service to the low-income designated areas.

Measure: The ratio of newly designated and newly chartered low-income credit unions divided by the prior year's low-income designated credit unions.

Measure: The number of members served by low-income designated credit unions.

Objective: Provide technical assistance and community development revolving loans to credit unions that serve low-income communities.

Measure: The dollar amount of technical assistance grants funded.

Measure: The dollar amount of community development revolving loans funded.

5. Consumer Compliance Program. Ensure compliance with consumer regulations.

Objective: Ensure that credit union consumers get the benefits and protection afforded them by law and regulation.

Measure: The number of consumer violations identified during regular and special examinations.

Measure: The ratio of violations corrected to the number of violations noted during regular and special consumer compliance examinations.

6. Resource Management Program. Responsibly manage the agency's human, financial, and technical resources.

Objective: Recruit and retain qualified employees through quality of life and family-friendly initiatives.

Measure: The ratio of Full Time Equivalents (FTEs) used to FTEs authorized at the field level.

Measure: The ratio of field employee separations to field employees on board.

Measure: The ratio of employee separations to employees on board.

Measure: The average response rating to the question on the NCUA employee survey that is based on a scale of 5 (Definitely Agree) to 1 (Definitely Disagree).

Objective: Maintain highly trained staff.

Measure: The number of employee hours per year spent on training and developmental assignments (minus Level 1 - 5 training hours) divided by number of the FTEs (minus new employees with less than one year of experience).

Measure: The number of training courses with satisfactory ratings divided by the number of courses attended.

Objective: Increase the representation of women and minorities within NCUA.

Measure: The percentage of women and minorities in auditor and credit union examiner positions by race, sex, and national origin.

Measure: The percentage of women and minorities in mid and senior level positions within NCUA.

Objective: Improve organizational efficiency through enhanced data collections, reporting, and monitoring.

Measure: The average score on the Office of Technology and Information Services Customer Survey Form, based on a scale of 1 (low) to 5 (high).